

Inflexible-Spending Accounts

Use-it-or-lose-it rules are ruining a great benefit. Help is on the way. But till then, here's how to cope **By Daniel Kadlec**

ONLY A PRINTER COULD love the annual benefits open-enrollment period bearing down on millions of employees. Instruction packets the size of a Sunday newspaper will clog your In box at work very soon, an oppressive reminder of how much you'll never know when it comes to deductibles, referrals and reimbursables—to say nothing of why your schizo doctor switches plans every year. Many won't read further than they must, which helps explain why so few—just 12% of those given the option—enroll in flexible-spending accounts (FSAs).

When employees figure out that they'll lose any pretax money they set aside but don't spend, most simply move on. Who needs to roll the dice on something so unknowable as how often you'll get sick next year? And it's a slap in the face that your employer gets to keep the leftovers. We're not talking big bucks—roughly \$20 a year goes unused in the typical health-care or dependent-care FSA. The real crime is that eligible workers grossly underuse FSAs out of fear that they will overguesstimate expenses. Drop the use-it-or-lose-it rule, and participation would quickly double, says David Wilson, president of FlexBen, a leading FSA administrator.

By law employers cannot return money to individuals who fail to exhaust their accounts, lest FSAs start to look like tax shelters. But companies can give the money back pro rata to everyone in the plan. Almost none do, choos-

ing instead to offset plan administrative costs—an outrage that Congress finally noticed last year.

Representative Ed Royce, a California Republican, sponsored a bill that would let employees roll over to the next year any unspent money. The idea is not just to encour-

thalmologists: eye-care expenditures spike in the fourth quarter. If it's not eyes, it may be an extra dental cleaning or cosmetic surgery. "Use-it-or-lose-it is the worst of all economic incentives," Royce says. He holds out hope for his bill. President Bush last month approved FSAs for all federal em-

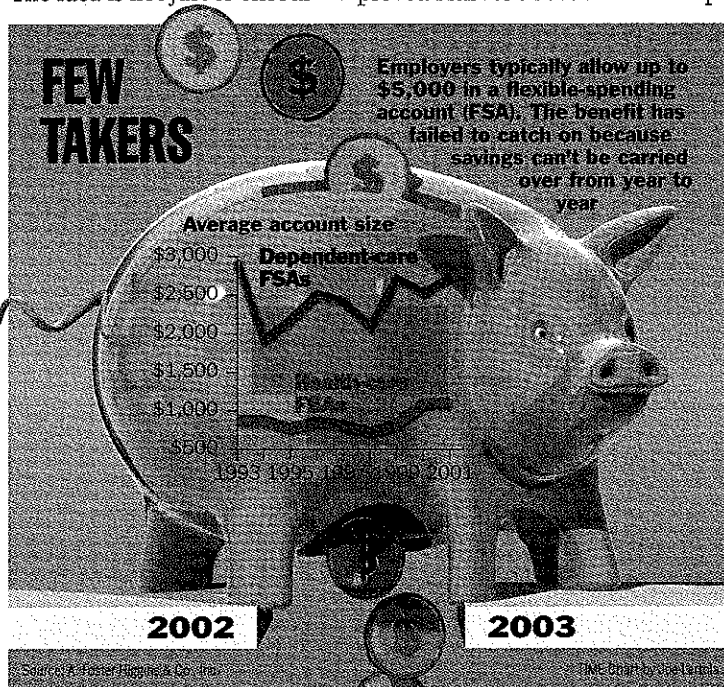
labels them "personal-care accounts," offered them to 3% of its work force last January. What's new is Treasury's blessing of the accumulation feature. Starting this January, Textron will expand the benefit to most of its 51,000 employees. Coors and 3M will start a similar program. "This is the future of health care," says FlexBen's Wilson, who predicts most large companies will set up HRAs in the next few years. The downside: to offset the costs of HRAs, companies will impose significantly higher monthly premiums and deductibles.

This development doesn't mean the end of FSAs. As they save money by shifting more health costs to employees, some companies may spice their FSAs with a matching contribution. So use-it-or-lose-it remains an issue. Congressman Royce wants FSAs to accumulate without limit. At a minimum, unused FSA funds should roll over with the provision that future contributions be suspended until the money from previous years is spent. That's what we should tell lawmakers.

Until the law changes, plan your FSA for costs you are sure to incur, such as

deductibles and scheduled orthodontia for the kids. Multiply that amount by your tax bracket (say, 28%), and add that amount as a reserve. Even if you never spend a dime of the reserve, the tax savings on your contributions ensure you'll be no worse off than if you hadn't enrolled. And odds are you'll tap the reserve—even if you don't wear glasses. ■

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age participation but to give health-care consumers an incentive to rein in their costs and build health-care savings they can draw upon later. Sadly, Royce's bill has been stuck in the rules committee for a year.

Royce got interested in FSAs two years ago, when his wife bought a pair of glasses she didn't need solely to drain her FSA by year's end. Indeed, studies have shown that FSAs are a late-year boon to oph-

thologists: eye-care expenditures spike in the fourth quarter. If it's not eyes, it may be an extra dental cleaning or cosmetic surgery. "Use-it-or-lose-it is the worst of all economic incentives," Royce says. He holds out hope for his bill. President Bush last month approved FSAs for all federal employees, and he provides in his budget for participants to roll over as much as \$500 a year.

Meanwhile, in a little noticed Treasury Department ruling last June, employers were given the O.K. to push ahead with "health-reimbursement arrangements [HRAs]," accounts that they fund on behalf of individuals and in which unused funds accumulate year after year. HRAs aren't new. Textron, which